

Message Text

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PAGE 01 MANILA 18338 210400Z
ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 L-03 H-01 PA-01 PRS-01
AID-05 CIAE-00 COME-00 EB-08 FRB-03 INR-07
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USADB

PASS TREASURY FOR DONALD SHERK

E.O. 11652: N/A
TAGS: EAID, EFIN
SUBJECT: SELECTION OF OUTSIDE AUDITORS

REF: MANILA 18148

IN VIEW YOUR INTEREST IN PROCEDURE FOR SELECTION OF OUTSIDE
AUDITORS BY ADB, FOLLOWING EXCERPT FROM OCTOBER 25-26, 1977
MEETING OF AUDIT COMMITTEE OF BOARD OF DIRECTORS ON THIS
SUBJECT, KEEPING IN MIND THAT FORMAL DECISION IS IN HANDS
OF BOARD OF DIRECTORS ITSELF:

AGENDA ITEM 1 - SELECTION OF OUTSIDE AUDITORS

1.1 THE COMMITTEE NOTED, WITH REFERENCE TO ITEM (I) OF ITS
TERMS OF REFERENCE THAT IT WOULD NEED QUOTE TO ADVISE ON THE
SELECTION OF OUTSIDE AUDITORS UNQUOTE AND THAT AS THE
CURRENT APPOINTMENT OF MESSRS. HASKINS AND SELLS OF NEW
YORK, U.S.A. ONLY COVERED FISCAL YEAR 1977 (SEE ITEM 7 OF
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DOC.M48-76), AN EARLY RECOMMENDATION WAS NECESSARY REGARDING
THE OUTSIDE AUDIT OF THE ACCOUNTS OF THE BANK AT LEAST
FOR THE FISCAL YEAR 1978.

1.2 THE COMMITTEE RECOGNIZED, ON THE QUESTION OF CHANGING
THE OUTSIDE AUDITORS, THAT THE BANK MIGHT BENEFIT FROM A
FRESH VIEW AND THAT A TOO-LONG ASSOCIATION BETWEEN AUDITOR

AND CLIENT COULD IMPAIR THE NECESSARY OBJECTIVITY AND FORTHRIGHTNESS OF AUDIT. ON THE OTHER HAND, THE COMMITTEE NOTED THAT (I) MESSRS. HASKINS AND SELLS WERE NOT FINANCIALLY DEPENDENT ON THE BANK TO ANY SIGNIFICANT DEGREE SINCE IT WAS A LARGE INTERNATIONAL FIRM WITH A WIDE COMMERCIAL CLIENTALE; (II) ITS FEES WERE CALCULATED ON A STANDARIZED BASIS; (III) THE WORLD BANK HAD NOT CHANGED ITS OUTSIDE AUDITORS FROM ITS INCEPTION; (IV) HASKINS AND SELLS REGULARLY ROTATED THEIR PERSONNEL ASSIGNED TO THE ADB AUDIT; (V) THERE WAS A WIDELY ADOPTED CUSTOM AGAINST CHANGE OF AUDITORS WITHOUT CAUSE; AND (VI) THAT A CHANGE OF AUDITORS BY THE BANK, EVEN ON GROUNDS OF POLICY - WHICH COULD BE AN ACCEPTABLE BASIS FOR CHANGE - MIGHT HAVE ADVERSE IMPLICATIONS IN REGARD TO THE BANK'S CAPITAL MARKET OPERATIONS.

1.3 AFTER DISCUSSION, THE COMMITTEE CAME TO THE VIEW THAT THE POSSIBLE BENEFITS FROM CHANGING THE OUTSIDE AUDITORS WERE OUTWEIGHED BY THE OTHER CONSIDERATIONS MENTIONED ABOVE.
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